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SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIAMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A

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SUBJECT: Central Banker Gono: What to Expect

1. (SBU) Summary: Gideon Gono's assiduously-crafted image as Zimbabwe's star businessman/negotiator will not survive his Reserve Bank tenure. The economy he's about to steward is a sliver of its former self. Initially, we expect Gono to quietly advocate market-oriented policies through his personal relationship with President Mugabe and penchant for backroom deals. When that fails - as we believe it will - Gono will face his toughest dilemma, whether to take his dissent public (like former Finance Minister Simba Makoni) or cower in private (like the present Finance Minister Herbert Murerwa and former Reserve Bank Governor Leonard Tsumba). In the end, he must sacrifice either his insider privilege or public repute. End Summary.

The Job No One Wanted

2. (SBU) Gono foresaw this Faustian bargain and did all he could to avoid the Governorship. After six months of Gono's bobbing and weaving, Mugabe at last pinned him down. Since then, the incoming Reserve Bank chief has made the best of his appointment, casting himself as a business wunderkind called into service to rescue his country.

3. (SBU) In contrast, most local businesspeople consider Gono a ZANU-PF crony who built an empire on sweetheart deals. As the unofficial banker of Mugabe and the ruling ZANU-PF, Gono has traded low interest (and bad risk) loans for preferential deals. Local bankers dismiss his acclaimed turnaround of Commercial Bank of Zimbabwe (CBZ) as smoke-and-mirrors. Nonetheless, Zimbabwe Broadcasting Corporation (which he chairs) and Financial Gazette (which he owns) tout it as Zimbabwe's Herculean business feat.

Not the Worst Choice

4. (SBU) Our contacts with Gono lead us to believe he understands why the GOZ's interventionist economic policy is not working, and that only material gain makes producers produce. Unlike many ZANU-PF hardliners enthralled by the Cuban "economic miracle," Gono has instead pointed to the Malaysia as the model to emulate. He is also a skilled negotiator who brokered a complex fuel deal with the Libya's Tamoil in 2001. It took the Libyans a year to realize Gono had swindled them into sending free fuel.

5. (SBU) At one point, Gono showed us a "strictly private and confidential" paper he prepared for Mugabe. It may give some indication of his slant as central bank chief. Gono bends over backward to massage Mugabe's ego and couch his proposals in the least-threatening manner: "If any parts or sections of the document are found to be offensive to anybody or out of line with political and economic thinking in the Government, I apologize." While no reader would mistake Gono's prescriptions for those of the IMF, they beat the present policy melange hands-down. He calls for a more realistic exchange rate, though the GOZ should still "manage the process and not leave it to the market." Gono argues that the GOZ should stabilize the political environment, grant resettled farmers title-deed, provide more incentives for exporters and "get Zimbabwe/UK relations back on course."

Comment

6. (SBU) From what we know of Gono, we believe he will align with GOZ moderates and push for more commonsensical economics. But can he succeed where a sharper-witted administrator like ex-Finance Minister Simba Makoni failed? The rosier scenario says maybe, since Gono can take his case around GOZ hardliners and directly to

Mugabe. Furthermore, he can turn the Financial Gazette into the Reserve Bank's publicity organ - a potential counterweight to Information Minister Jonathan Moyo's use of State media.

17. (SBU) Unfortunately, we consider it more likely Gono will back down when confronted by Mugabe and his more militant ministers. Better than anyone, Gono understands that GOZ connections made - and can break - his empire. Bluntly put, we predict Gono will decide it's better to be rich than right, falling in line behind other weak-kneed GOZ malcontents. But conformity to bad policy has its price: The economy's continued recession will finally shatter Gono's public persona as Zimbabwe's turnaround artist.

Sullivan